

OLYMPIA, WASHINGTON

July 13, 2004

The State Finance Committee met in a special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer
Gary Locke, Governor

Also Present: Allan J. Martin, Office of the State Treasurer
Tom Morrill, Office of the Attorney General
Kristi Wolgamot, Office of the State Treasurer
Darlene DeRose, Montague DeRose & Associates
Nancy Adams, Office of the State Treasurer
Doug Goe, Orrick, Herrington & Sutcliffe
Dean Torkelson, Seattle-Northwest Securities
Bill Tonkin, Foster Pepper & Shefelman
Vicki Cox, Office of the State Treasurer
Jean Baker, Seattle-Northwest Securities
Susan Musselman, Susan D. Musselman, Inc.
Susan Melvin, Office of the State Treasurer
Svein Braseth, Office of the State Treasurer
Susan Penley, Guest
David Brown, University of Washington
Chris Malins, University of Washington
Scott Davies, University of Washington
Bill Starkey, Seattle-Northwest Securities
Nancy Notter, Office of the State Treasurer
Jay Reich, Preston Gates & Ellis
Stacey Crawshaw-Lewis, Preston Gates & Ellis
Shad Pruitt, Office of the State Treasurer
Rob Shelley, Seattle-Northwest Securities
Ben Juergens, Orrick, Herrington & Sutcliffe
Thomas R. Henderson, State Board of Community & Technical Colleges
Mike Roberts, Office of Financial Management
Barton Potter, Office of the State Treasurer
Chia Yang, Montague DeRose & Associates
Amy Arnis, Department of Transportation
Pam Johnson, Office of the State Treasurer

Chairman Murphy called the meeting to order.

Governor Locke moved the minutes for the June 8, 2004 meeting be approved. Chairman Murphy seconded the motion. The motion passed and the minutes were adopted.

Mr. Martin said proposed Resolution No. 1001 accepts a bid for the purchase of State of Washington Various Purpose General Obligation Bonds, Series 2005A in the aggregate principal amount of \$350,050,000; fixing the interest rates; in accordance with Resolution No. 997. The Series 2005A Bonds are tax-exempt current interest bonds. The interest will be paid semi-annually on the outstanding principal. Together, the debt service payments of Series 2005A Bonds and the Series 2005T Bonds (collectively, the "Bonds") are structured to produce an approximate level debt service over the life of the Bonds. Mr. Martin said five bids were received and accepted electronically through Parity at 7:30 a.m. Pacific Time. Morgan Stanley submitted a true interest cost (TIC) of 4.7224948%; Merrill Lynch & Co. submitted a TIC of 4.7485381%; Citigroup Global Markets, Inc. submitted a TIC of 4.7501168%; Goldman, Sachs & Co. submitted a TIC of 4.7590484%; and Lehman Brothers submitted a TIC of 4.7597766%, with the apparent low bidder being Morgan Stanley.

Mr. Martin presented proposed Resolution 1001 to the committee.

Resolution 1001 awards the sale of \$350,050,000 State of Washington Various Purpose General Obligation Bonds, Series 2005A, authorized by Chapter 14, Laws of 1989, 1st Ex. Sess; Chapter 15, Laws of 1990, 1st Ex. Sess.; Chapter 9, Laws of 2001, 2nd Sp. Sess.; Chapter 3, Laws of 2003, 1st Sp. Sess.; Chapter 18, Laws of 2003, 1st Sp. Sess., and Chapter 39.42 RCW.

Governor Locke moved to adopt Resolution 1001. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 1002 accepts a bid for the purchase of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2005B in the aggregate principal amount of \$173,700,000; fixing the interest rates; in accordance with Resolution No. 998. The Series 2005B Bonds are tax-exempt current interest bonds. The interest will be paid semi-annually on the outstanding principal. The Series 2005B Bonds are structured to produce an approximate level debt service over the life of the Bonds. Mr. Martin said two bids were received and accepted electronically through Parity at 7:30 a.m. Pacific Time. Merrill Lynch & Co. submitted a TIC of 4.6667920% and Goldman, Sachs & Co. submitted a TIC of 4.6885931%, with the apparent low bidder being Merrill Lynch & Co.

Mr. Martin presented proposed Resolution 1002 to the committee.

Resolution 1002 awards the sale of \$173,700,000 of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2005B, authorized by Chapter 7, Laws of 1967, Ex. Sess, as amended (RCW 47.10.762); Chapter 431, Laws of 1993 (RCW 47.10.812); Chapter 321, Laws of 1998 (Referendum 49)

(RCW 47.10.843), Chapter 147, Laws of 2003 (RCW 47.10.861); and Chapter 39.42 RCW.

Governor Locke moved to adopt Resolution 1002. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 1003 accepts a bid for the purchase of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2005C in the aggregate principal amount of \$65,000,000, more or less; fixing the interest rates; in accordance with Resolution No. 998. The Series 2005C Bonds are tax-exempt compound interest bonds. As such, the interest on the Series 2005C Bonds will be paid only at maturity. Mr. Martin said five bids were received and accepted electronically through Parity at 8:30 a.m. Pacific Time. Lehman Brothers submitted a TIC of 5.1880518%; Citigroup Global Markets, Inc. submitted a TIC of 5.2164781%; Morgan Stanley submitted a TIC of 5.2375713%; Goldman, Sachs & Co. submitted a TIC of 5.2803419%; and Merrill Lynch & Co. submitted a TIC of 5.3526575%, with the apparent low bidder being Lehman Brothers.

Mr. Martin presented proposed Resolution 1003 to the committee.

Resolution 1003 awards the sale of \$65,000,000, more or less, of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2005C, authorized by Chapter 321, Laws of 1998 (Referendum 49) (RCW 47.10.843), and Chapter 39.42 RCW.

Governor Locke moved to adopt Resolution 1003. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 1004 accepts a bid for the purchase of State of Washington General Obligation Bonds (State Housing Trust Fund), Series 2005T (Taxable) in the aggregate principal amount of \$43,375,000; fixing the interest rates for the bonds; in accordance with Resolution No. 999. The Series 2005T Bonds are taxable current interest bonds. The interest will be paid semi-annually on the outstanding principal. Together, the debt service payments of Series 2005T Bonds and the Series 2005A Bonds (collectively, the "Bonds") are structured to produce an approximate level debt service over the life of the Bonds. Mr. Martin said thirteen bids were received and accepted electronically through Parity at 8:30 a.m. Pacific Time. Morgan Stanley submitted a TIC of 3.7976058%; Griffin, Kubik, Stephens & Thompson, Inc. submitted a TIC of 3.8109643%; Goldman, Sachs & Co. submitted a TIC of 3.8123441%; Legg Mason Wood Walker, Inc. submitted a TIC of 3.8130715%; Morgan Keegan & Company, Inc. submitted a TIC of 3.8205306%; Lehman Brothers submitted a TIC of 3.8244577%; BB&T Capital Markets submitted a TIC of 3.8366365%; Raymond James & Associates, Inc. submitted a TIC of 3.8464777%; UBS Financial Services Inc. submitted a TIC of 3.8643096%; Merrill Lynch & Co. submitted a TIC of 3.9024427%; First Albany Capital Inc. submitted a TIC of 3.9812971%; NBC Capital Markets Group, Inc. submitted a TIC of

3.9855900%; and Wachovia Bank, National Association submitted a TIC of 4.0152876%, with the apparent low bidder being Morgan Stanley.

Mr. Martin presented proposed Resolution 1004 to the committee.

Resolution 1004 awards the sale of \$45,375,000 State of Washington General Obligation Bonds (State Housing Trust Fund), Series 2005T (Taxable), authorized by Ch. 3, Laws of 2003, 1st Sp. Sess.

Governor Locke moved to adopt Resolution 1004. Chairman Murphy seconded the motion and the resolution was adopted.

Ms. Wolgamot said proposed Resolution No. 1005 approves the forms of financing documents and authorizes the issuance and sale of an amount up to \$8,000,000 of State of Washington Certificates of Participation plus financing costs and required reserves for the State Board for Community and Technical Colleges, on behalf of Columbia Basin College, for the construction of a medical technology and science education building addition. The State Board for Community and Technical Colleges, on behalf of Columbia Basin College, received authorization pursuant to Laws of 2004, Chapter, 277, Section 904 (6)(m) to enter into a financing contract in the 2003-2005 biennium to construct a medical technology and science education addition to the T-building renovation and to establish the Washington Institute of Science Education (WISE).

Treasurer Murphy acknowledged Tom Henderson who said it was a wonderful addition to the Columbia Basin College

Mr. Martin presented proposed Resolution 1005 to the committee.

Resolution 1005 approves forms of a State Agency Financing Lease and related documents to be entered into by the State Board for Community and Technical Colleges on behalf of Columbia Basin College to finance a portion of the construction of the Medical Technology and Science Addition to the T-Building renovation and the Washington Institute of Science Education on the College's campus and authorizes the issuance and sale of up to \$8,000,000 (plus financing expenses and required reserves) of State of Washington Certificates of Participation authorized by Chapter 277, Laws of 2004, Section 904(6)(M) and Chapter 39.94 RCW.

Governor Locke moved to adopt Resolution 1005. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 1006 approves and authorizes a payment agreement to be entered into on behalf of the University of Washington ("university"). On June 15, 2004, the committee received a letter from the university requesting that a resolution

authorizing the use of a payment agreement relating to the funding of research facilities be placed on the agenda of the July 13th special meeting of the State Finance Committee. Under RCW 39.96, the State Finance Committee is charged with approving any payment agreements for any state institution of higher education. Proposed Resolution No. 1006 approves and authorizes the University of Washington to enter into a payment agreement in connection with the issue of its General Revenue Bonds, Series 2004 (the “bonds”), in an aggregate principal amount not exceeding \$67,000,000 to provide a portion of the funds needed by the university to construct a new bioengineering and genome sciences building and a new research and technology building. The University of Washington and Washington State University are authorized to acquire and finance research facilities and related equipment supported by the fees and revenues each university receives from its facilities or research activities. It should be noted that approval of the payment agreement by the State Finance Committee does not create a full faith and credit pledge of the State of Washington.

Mr. Martin said RCW 39.96.020 defines payment agreements as a written agreement which provides for an exchange of payments based on interest rates, or for ceilings or floors on these payments, or an option on these payments, or any combination, entered into on either a current or forward basis. Payment agreements are referred to in financial markets as “swaps.” The payment agreement proposed is an interest rate swap. Typically, an interest rate swap is an exchange of interest payments, one fixed and one variable, between two parties. The payment obligations are not legally tied to the underlying debt of the issuer. Under RCW 39.96, interest rate swaps may be used only to reduce issuer exposure to interest rate changes or reduce the net cost of borrowing. It should be stressed that the swap payments involve an obligation to make fixed or variable interest payments only. No principal is exchanged in these transactions. A notional amount (usually the par amount of the underlying bonds) is used as a basis to compute the fixed and variable payments owed by the counterparties.

Mr. Martin said the University of Washington is proposing to use an interest rate swap as part of the plan of finance for the bioengineering/genome buildings and research and technology buildings. The bioengineering/genome buildings will total approximately 265,000 gross square feet of state-of-the-art research and teaching facilities occupied primarily by the School of Medicine and College of Engineering. The bioengineering component will house a multi-disciplinary program to support research and academic curriculum. The genome sciences facility will contain a mix of research space for the emerging program of genome research including a mix of biomedical research laboratories, offices, and associated central support spaces. The 122,295 square feet research & technology building will provide additional campus space creating an opportunity to expand multi-disciplinary research initiatives in high growth areas that need to be located near the core campus.

Mr. Martin said financing is proposed to be accomplished using tax-exempt revenue bonds with maturities not-to-exceed 33 years. The bonds are expected to be issued on or about September 16, 2004. Under the proposed transaction, bonds are expected to bear variable rates. The ratings on the underlying bonds are expected to be “Aa1/AA+” from Moody’s and Standard and Poor’s, respectively. The university may purchase bond insurance for the bonds if

economically beneficial. The swap agreement will obligate the university to make an all-in fixed rate payment (approximately 4.27 percent in the current market) to the counterparty and, in return, receive from the counterparty a variable rate payment of approximately 67 percent of one-month LIBOR. This amount will be used to offset the university's variable rate payment obligation on the underlying bonds. The maturity of the swap agreement will match that of the bonds. The swap counterparty must be rated at least "Aa3/AA-". If its credit rating falls below this threshold, posting of collateral will be required. The university may or may not purchase bond insurance for its swap payment obligation. The swap will be entered into only if it is economically beneficial at the time the bonds are issued. If it is not beneficial, the university will issue fixed-rate bonds instead. The university's Board of Regents will consider a resolution to approve the financing, including the swap, on July 16, 2004. Representatives of the University and its financial advisor, Seattle-Northwest Securities Corporation, will be available to answer questions about the financing.

Treasurer Murphy thanked Scott Davies, Chris Malins, David Brown, Stacey Crawshaw-Lewis, Jay Reich, Jean Baker, and Dean Torkelson for attending and representing the University of Washington. Mr. Davies said they requested approval of Resolution 1006 since the additional space is crucial to meet the growing demands of student capacity and bio-engineering technology. It is projected that the savings will be \$4.8 million. Mr. Torkelson said as financial advisor, they had two sets of requirements: 1) that the end product resulted in savings and 2) that it was financially prudent and compliant with prudent debt management policies. Treasurer Murphy said Mr. Torkelson was not in conflict being financial advisor to the committee and the University of Washington. Treasurer Murphy asked if the research that the University conducted resulted in a miracle drug, would state citizens receive payment. Mr. Brown said the University patents their research and any profits received is split three ways: one-third to the inventor, one-third to the school department and one-third to the University's research fund to fund other research projects.

Treasurer Murphy said this resolution was not approving the ability of the University to issue debt, it is approving their ability to swap interest rates. The committee will have a final review of the payment plan before the debt is issued. Treasurer Murphy thanked everyone for their hard work on this project. He also thanked Scott Davies and Chris Malins for attending the early morning bid process.

Mr. Martin presented proposed Resolution 1006 to the committee.

Resolution 1006 approves and authorizes a payment agreement to be entered into on behalf of the University of Washington.

Governor Locke moved to adopt Resolution 1006. Chairman Murphy seconded the motion and the resolution was adopted.

There being nothing further to come before the committee, the State Finance Committee meeting was adjourned at 10:35 a.m. and the Public Deposit Protection Commission meeting was called to order.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

Michael J. Murphy, State Treasurer & Chairman

Christine Gregoire, Governor & Member

Brad Owen, Lieutenant Governor & Member

Allan J. Martin
Deputy State Treasurer & Secretary